WASHINGTON STATE DEPARTMENT OF REVENUE

SPECIAL NOTICE

January 15, 2004

For further information contact: **Telephone Information Center** 1-800-647-7706 or (360) 486-2345

Alternate Formats (360) 486-2342 Teletype 1-800-451-7985

Aeronautics Industry Manufacturer Tax Incentives

Effective December 1, 2003, HB 2294 (Second Special Session, Chapter 1, Laws of 2003) provides a comprehensive tax incentive program for persons engaged in manufacturing commercial airplanes and manufacturers of component parts of commercial airplanes. Although the bill is effective December 1, 2003, some incentives are not available for use until a later date. Additionally, several incentives apply to manufacturers of commercial airplanes and manufacturers of component parts of commercial airplanes, while other incentives apply only to manufacturers of commercial airplanes.

Business and Occupation Tax Rate Decrease

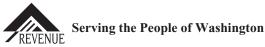
The business and occupation (B&O) tax rate for manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes will decrease as outlined below. The rate will apply to both the manufacturing activity and the subsequent sale of the manufactured product by the manufacturer. The manufacturer is also eligible for the multiple activities tax credit (MATC). Persons who qualify for this B&O tax rate decrease should report the income under the new Aerospace B&O tax classification on the excise tax return.

| <u>Period</u> | | Rate |
|-------------------|--------------------|------------------------------|
| December, 1, 2003 | 3 - Sept. 30, 2005 | .00484 |
| October 1, 2005 | - June 30, 2007 | .004235 (reduction of 12.5%) |
| July 1, 2007 * | - June 30, 2024 | .002904 (reduction of 40.0%) |

^{*} The reduction to the .002904 B&O tax rate provided in this legislation takes effect on the later of July 1, 2007, or when final assembly of a superefficient airplane has begun.

B&O Tax Credit for Preproduction Development Expenditures – The law provides a B&O tax credit equal to 1.5% of qualified preproduction development expenditures used in manufacturing commercial airplanes or component parts of commercial airplanes by manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes.

"Qualified preproduction development expenditures" means operating expenses directly incurred in research, design, and engineering activities performed in relation to the development of a product, product line, model, or model derivative, including prototype development, testing, and certification performed within this state in the field of aeronautics. See RCW 82.04.4461 for a complete definition.



The term does not include capital costs and overhead, such as expenses for land, structures, or depreciable property, or amounts paid to a person to conduct qualified preproduction development, other than a public educational or research institution. Credit may not be claimed for expenditures claimed for purposes of the High Technology Research and Development B&O tax credit provided by RCW 82.04.4452.

The credit can accrue for expenditures made on and after December 1, 2003, but cannot be used until July 1, 2005. The credit should be reported under the Credits section of the excise tax return for periods starting July 1, 2005. Unused credit cannot be carried over beyond the calendar year. The credit cannot exceed B&O taxes due.

Pre-approval is not required from the Department of Revenue to use the credit, but an *affidavit* prescribed by the Department of Revenue must be filed with the Department when the credit is taken. The affidavit will be available by December 31, 2004 on the Department's web site at http://dor.wa.gov or by contacting Taxpayer Account Administration at (360) 902-7175.

B&O Tax Credit for Property Taxes Paid on Property Used in Manufacturing Commercial Airplanes and Component Parts of Commercial Airplanes – The law provides a B&O tax credit equal to the property taxes paid on new buildings, the land upon which the new buildings are located, the increased value of renovated buildings, and tangible personal property eligible for the manufacturing machinery and equipment (M&E) exemption when the buildings, renovations, and tangible personal property are used in manufacturing commercial airplanes or component parts of commercial airplanes.

This B&O tax credit cannot be claimed until the property taxes associated with the qualifying land, buildings, or machinery and equipment have actually been paid.

B&O Tax Credit for Computer Software and Hardware Acquired before December 1, 2003 – A B&O tax credit is available to commercial aircraft manufacturers equal to 8.44% of investment related to design and preproduction computer software and hardware acquired between July 1, 1995 and December 1, 2003. *This credit is not available to manufacturers of component parts of commercial airplanes.* Note the requirements below:

- ◆ An application must be made to the Department of Revenue before taking the credit in a manner prescribed by the Department. For more information on the application process, contact Taxpayer Account Administration at (360) 902-7175.
- ◆ The business must apply before December 1, 2004, to receive the credit.
- ◆ There is a \$10 million credit limit in any calendar year and a \$20 million lifetime credit limit.
- ◆ The credit can be carried over until it is depleted.

Retail Sales and Use Tax Exemption for Computers – Effective December 1, 2003, a retail sales/use tax exemption is available for computer hardware, software, and computer peripherals used primarily in the design, development, and engineering of commercial airplanes or component parts of commercial airplanes when purchased by manufacturers and processors for hire of commercial airplanes or component parts of commercial airplanes. The exemption applies to computer equipment not otherwise eligible for the manufacturing machinery and equipment (M&E) exemption. The exemption also applies to charges for labor and services related to the installation of qualifying computer hardware, software, and computer peripherals.

See below for specific requirements.

- ◆ The purchaser must provide the vendor with a completed *Buyers' Retail Sales Tax Exemption Certificate*, checking the appropriate box in section five of this certificate.
- ◆ Purchasers who paid sales tax on qualifying exempt purchases on or after December 1, 2003, should submit an exemption certificate and refund request directly to the vendor.

Annual Reporting Requirements

A person who reports taxes under the Aerospace B&O tax rate or who claims a tax credit or exemption under the aerospace incentives program must submit an annual report to the Department of Revenue detailing employment, wages, and employer-provided health and retirement benefits per job at the manufacturing site. The report must detail employment by the total number of full-time, part-time, and temporary positions. The report shall not include names of employees. The report must be submitted by March 31 of each year.

The first report filed must include employment, wage, and benefit information for the 12-month period immediately before first use of the decreased rate or tax credit programs listed above.

This information is not subject to the confidentiality provisions of RCW 82.32.330 and may be disclosed to the public upon request. The report should be sent to:

Department of Revenue Special Programs Division PO Box 47472 Olympia, WA 98504-7472

Other Special Notices To Be Published

Special Notices will be published during calendar year 2004 to provide more detailed instructions on the B&O tax credit for property taxes paid on qualifying property, and the sales/use tax exemption for qualifying purchases of computers, software, and peripherals.

Other Tax Incentive Programs

Chapter 1, Laws of 2003 Second Special Session, also provides a package of tax incentive programs exclusively for manufacturers of superefficient airplanes. For detailed information about these programs contact Cindy Evans at (360) 570-6134.

Manufacturers of commercial airplanes and manufacturers of component parts thereof also qualify for the Manufacturing Machinery and Equipment ("M&E") Sales/Use Tax Exemption, and may qualify for the High Technology Research and Development B&O Tax Credit, New Employee B&O Tax Credit, and Distressed Area Sales/Use Tax Deferral/Waiver. For detailed information about these programs contact Gary Grossmann at (360) 486-2147.

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